

Message Text

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ACTION ARA-20

INFO OCT-01 EUR-25 ISO-00 CIAE-00 DODE-00 PM-07 H-03

INR-11 L-03 NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03

SS-20 USIA-15 COME-00 EB-11 LAB-06 SIL-01 OMB-01

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FM AMCONSUL CURACAO

TO SECSTATE WASHDC 1980

INFO AMEMBASSY THE HAGUE

AMEMBASSY SAN SALVADOR

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FOR WAUCHOPE - BURKE ARA/CAR

E.O. 11652: N/A

TAGS: EIND. EINV, PFOR, NA

SUBJECT: CONCERN OVER FUTURE PROFITABILITY OF US INDUSTRIES
IN THE NA

REF: CURACAO 433

1. LOCAL PRESS YESTERDAY HEADLINED THAT TEXAS INSTRUMENTS (TI) FACTORY MAY LEAVE NA BECAUSE OF PROPOSED CHANGE IN US INTERNAL REVENUE CODE. FOLLOWING MASS LAYOFF AT ROCKWELL DUE TO DETERIORATING ECONOMIC CONDITIONS IN WORLD ELECTRONIC INDUSTRY, CUTBACK OR CLOSING OF TI WOULD BE SEVERE ECONOMIC BLOW TO NA ECONOMY. TI DENIES CONSIDERING CLOSING OF LOCAL PLANT, BUT STATES ELIMINATION OF SEC 921 OF INTERNAL REVENUE CODE MAY SERIOUSLY AFFECT TI PROFITS AND WOULD HURT FUTURE INVESTMENT IN NA.

2. LA PRENSA IN A FRONTPAGE STORY ON SEP 4 ALLEGED THAT TI MAY HAVE TO CLOSE ITS CURACAO ASSEMBLY PLANT QTE IN THE NEAR
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FUTURE UNQTE. ACCORDING TO THE STORY, PROPOSED CHANGES IN

U.S. LAWS WOULD MAKE IT UNPROFITABLE FOR TI TO CONTINUE OPERATIONS IN THE NA. THE STORY EMPHASIZED CHANGES IN CUSTOMS VALUATION OF IMPORTED GOODS TO THE US AS THE DECIDING FACTOR IN THE TI DECISION.

3. MANAGER OF TI'S CURACAO PLANT, JOHN NEILL, TOLD CONGEN IN STRICTEST CONFIDENCE THAT TI HAS NO INTENTION OF CLOSING PLANT AND THAT US CUSTOMS VALUATION HAD LITTLE IMPACT ON LOCAL TI PRODUCTION WHICH IS AIMED AT EUROPEAN MARKET. HE DID SAY THAT PROPOSAL TO ELIMINATE ADVANTAGES OF SECTION 921 OF INTERNAL REVENUE CODE GIVING TAX ADVANTAGE TO WESTERN HEMISPHERE TRADING CORPORATIONS (WHTC) COULD BOOST TI'S TAX RATE FROM 34 TO 48 PERCENT, SERIOUSLY AFFECTING THEIR PROFITS. THIS WOULD NECESSITATE COMPANY'S RE-EVALUATION OF PROFITABILITY OF PLANT AND POSSIBLY BRING DIFFERENT CORPORATE STRUCTURE

(E.G. LOCALLY ORGANIZED CORPORATION BECOMING PLANT OWNERS). NEILL ALSO POINTED OUT THAT ELIMINATION OF WHTN PROVISION WOULD MAKE GNA ATTEMPTS TO ATTRACT INDUSTRY MUCH MORE DIFFICULT AND THAT GNA LOBBYING EFFORT WILL PROBABLY BE MADE IN WASHINGTON.

4. COMMENT: LOSS OF SUBSTANTIAL EMPLOYMENT AT TI WOULD BE SEVERE BLOW TO CURACAO WHICH HAS SERIOUS CONTINUING UNEMPLOYMENT PROBLEM. LOCAL OFFICIALS ESTIMATE TWO THOUSAND NEW JOBS MUST BE CREATED ANNUALLY TO KEEP ALREADY HIGH UNEMPLOYMENT RATE FROM INCREASING. ANY USG LEGISLATION TENDING TO MAKE INVESTMENT IN NA MORE

DIFFICULT CAN BE EXPECTED TO CREATE BILATERAL FRICTION AND BE STRONGLY OPPOSED BY GNA. ELIMINATION OF WHTC PROVISION, ADDED TO RECENT END OF WITHHOLDING TAX PROVISION, WOULD BE VIEWED BY GNA AS AGAINST THEIR INTEREST. THEY WILL UNDOUBTEDLY INSTRUCT THEIR LOBBYISTS, SILVERSTEIN AND MULLENS TO WORK SPECIAL EXEMPTION FROM ANY NEW TAX LAW FOR CORPORATIONS DOING BUSINESS IN THE NA.

5. ACTION REQUESTED: SINCE GNA ECONOMIC MINISTER KROON HAS ALREADY EXPRESSED INTEREST TO CONGEN IN FUTURE OF SECTION 921, CONGEN WOULD APPRECIATE ANY PRESENT AND FUTURE INFORMATION ON PROPOSALS TO ELIMINATE WHTC PROVISION AND DEPARTMENT'S BEST ESTIMATE OF OUTCOME.
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